

# 2019 Annual Report on the Remuneration of Directors

26 February 2020

**2019 ANNUAL REPORT ON THE REMUNERATION OF DIRECTORS**

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**INTRODUCTION**

This Annual Report on the Remuneration of Directors was prepared by the Appointments and Remuneration Committee of Meliá Hotels International, S.A. and submitted to the Board of Directors for approval, within the context of the functions defined by the Board of Directors Regulation and in compliance with Article 541 of the Spanish Capital Companies Act.

The Report was unanimously approved by the Board of Directors at its meeting held on 26 February 2020 and shall be submitted to Shareholders for an advisory vote at the 2020 General Shareholders' Meeting, as a separate item on the agenda.

It must be noted that the Report was prepared in accordance with the contents and instructions provided in Circular Note 2/2018 of June 12th by the CNMV, with the Company having chosen the free-format option.

**DEFINITIONS**

**CNMV:** Spanish Securities Market Commission.

**Appointments and Remuneration Committee:** Meliá's Appointments and Remuneration Committee.

**Company or Meliá:** The company Meliá Hotels International, S.A.

**Chief Executive Officer (CEO) or Executive Director:** Mr Gabriel Escarrer Jaume, Vice-President and Chief Executive Officer of Meliá and the sole Director performing executive duties.

**Group:** Meliá and all dependent companies over which Meliá exercises direct or indirect control according to Article 42 of the Spanish Commercial Code.

**ARR / Report:** This Annual Report on the Remuneration of Directors.

**CCA or Capital Companies Act:** Spanish Royal Legislative Decree 1/2010 of July 2nd approving the consolidated text of the Capital Companies Act.

**Policy or Remuneration Policy:** Meliá's Remuneration Policy for the years 2019 to 2021.

## A. REMUNERATION POLICY OF THE COMPANY FOR THE CURRENT FINANCIAL YEAR

*A.1 Please explain the Remuneration Policy applicable to Directors for the current financial year. Where relevant, you may include certain information by reference to the Remuneration Policy approved by the General Shareholders' Meeting, provided that such information is clear, specific and precise.*

*Specific remuneration criteria applicable in the current year should be described, including the remuneration of Directors in their capacity as such, as well as any consideration for the performance of executive duties carried out under the agreements signed with Executive Directors and in accordance with the Remuneration Policy approved by the General Shareholders' Meeting.*

*In any case, at least the following aspects should be reported:*

- Describe the procedures and corporate bodies involved in determining and approving the Remuneration Policy and its terms and conditions.*
- Confirm and explain, where applicable, whether the Company's Remuneration Policy was defined by taking into consideration comparable companies.*
- Confirm whether any external advisor was engaged, disclosing his or her identity where applicable.*

### Remuneration Policy Approval Procedures

The Remuneration Policy was approved by the Company's General Shareholders' Meeting held on 6 June 2018 and amended by the General Shareholders' Meeting held on 18 June 2019.

The procedure used to design the Remuneration Policy was detailed in the report approved by the Board of Directors and submitted to Shareholders for approval at the relevant General Shareholders' Meeting. The procedure is outlined below.

It must be noted that all documents referred to in this Section (reports, Board of Directors Regulation, Remuneration Policy) are available on the corporate website of Meliá Hotels International.

In accordance with Article 529(xix) of the Spanish Capital Companies Act, the Appointments and Remuneration Committee prepared a specific report on the Remuneration Policy based on a preliminary analysis of remuneration data conducted by the Company's Compensation Department (HR), taken from different remuneration studies carried out by consultancy firms specialising in top management and directors remuneration (Korn Ferry, Mercer, etc.). The Appointments and Remuneration Committee submitted this report to the Board of Directors.

The Board of Directors analysed and discussed the report as well as the proposed changes for the 2019-2021 period<sup>1</sup> with respect to the previous Policy. In particular, the Board positively assessed the continuity of the Remuneration Policy criteria

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<sup>1</sup> Erratum: The 2018 ARR stated that the Policy was applicable for the 2019-2020 period.

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implemented in the previous three-year period; it clarified the descriptive concepts comprising the amounts receivable as variable remuneration; and it introduced the possibility of subscribing to social welfare plans as part of the remuneration of Executive Directors to align with current market practice.

Upon calling for the 2018 General Shareholders' Meeting, the Board of Directors made available the mandatory report together with a new version of the Remuneration Policy, which was approved by the General Shareholders' Meeting with 169,782,809 votes in favour (*i.e.* 96.329% of the attending voting rights). Additionally, the General Shareholders' Meeting approved an increase in the maximum remuneration amount payable to Directors in their capacity as such, up to a maximum global amount of ONE MILLION TWO HUNDRED THOUSAND EUROS (€ 1,200,000) with 172,240,942 votes in favour (*i.e.* 97.724% of the attending voting rights).

As regards the modification of the Policy for the 2019-2021 period, the procedure to prepare the modification was the same as indicated above. On this occasion, at its 27 November 2018 and 26 February 2019 meetings, the Appointments and Remuneration Committee agreed to propose the incorporation of a clawback provision in the Services Agreement signed with the CEO, which in turn required a modification of the Remuneration Policy.

On 4 April 2019, the Board of Directors drafted a report-proposal for the modification of the Policy with a view to incorporating the clawback provision into the CEO's variable remuneration scheme.

Upon calling for the 18 June 2019 General Shareholders' Meeting, the Board of Directors made available the said report together with a new version of the Remuneration Policy, which was approved by the General Shareholders' Meeting with 169,761,585 votes in favour (*i.e.* 96.95% of the attending voting rights).

With regard to the participation of external advisors, the Appointments and Remuneration Committee and the Corporate Governance and Human Resources departments received consultancy services from Cuatrecasas in the preparation of the Remuneration Policy.

The Remuneration Policy was prepared in accordance with the regulations applicable to the Company: CCA, Company Bylaws and Board of Directors Regulation. In particular, Article 37 of the Company Bylaws states that the remuneration of Directors in their capacity as such shall consist of an annual global salary for all Directors with a maximum amount to be approved by the General Shareholders' Meeting, which shall apply for as long as no modifications are made. This shall be without prejudice to any other fees or considerations that may be receivable from the Company based on a contractual relationship other than their position as Directors, to be governed by the applicable regulatory framework.

In general terms, the duties of the Appointments and Remuneration Committee concerning this process are the following, pursuant to Article 39(iii) of the Company Bylaws and Article 15 of the Board of Directors Regulation:

- To propose to the Board the Remuneration Policy applicable to Directors, General Managers and any individuals performing top management duties under direct supervision by the Board, Executive Committees or Chief Executive

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Officers, as well as the individual remuneration and other contractual terms and conditions applicable to Executive Directors, ensuring compliance with such Policy.

- To conduct periodic reviews of the Remuneration Policy, assessing its adequacy and performance. In particular, to conduct periodic reviews concerning the assessment of the goals or parameters involved in the remuneration schemes applicable to the Executive Director and top management positions.
- To ensure transparency in remuneration payments and to incorporate the information concerning Directors' remuneration into the Annual Report on the Remuneration of Directors and the Annual Report on Corporate Governance, submitting the Annual Report on the Remuneration of Directors to the Board for approval.

It must be noted here that the Board of Directors, within the context of the duties defined by the Board Regulation, modified Articles 14 and 15 of the said Regulation during 2019 in order to readjust certain functions assumed by each Committee. To this regard, the new functions assumed by the Appointments and Remunerations Committee concerning the Remuneration Policy and the ARR have been highlighted.

### Remuneration of Directors in their capacity as such

The remuneration of Directors in their capacity as such is composed of (i) a fixed annual salary, and (ii) attendance fees for the sessions of the Company's Board of Directors and the Committees to which each Director belongs. This remuneration item also comprises the extraordinary tasks performed by those Directors assuming the functions of Chairman of the Board, Chairman of a Committee or Secretary of the Board.

Thus, the individual remuneration payable to each Director as such, within the limits defined by the maximum amount approved by the General Shareholders' Meeting, is determined by the Board of Directors at the proposal of the Appointments and Remuneration Committee based on the functions and responsibilities assumed by each Director, their participation in Delegated Committees, and other relevant objective circumstances (see "*Amount and nature of fixed remuneration components to accrue this year for Directors in their capacity as such*"), as well as on the analysis of remuneration data from similar companies operating in the market conducted by the Human Resources Department.

### Executive Director Remuneration

The Chief Executive Officer is the only Director undertaking managing tasks and receives additional amounts in consideration for the performance of such functions under the Services Agreement signed with the Company. These amounts include a fixed remuneration component, a variable remuneration component (including short-term and long-term components), and other benefits described in this Report.

Pursuant to the CCA, the Company Bylaws and the Board of Directors Regulation, the Appointments and Remuneration Committee submits to the Board of Directors its proposal for the modification of the Executive Director's remuneration, taking into account remuneration analyses conducted by external advisors on comparable businesses and reports prepared by the Company's Compensation Department (Human Resources).

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On a yearly basis, the Appointments and Remuneration Committee reviews the degree of fulfilment of the CEO's goals in order to determine the amounts to be paid as variable remuneration (including short-term and long-term items, where applicable) and then reports to the Board.

For the current year (2020), the review of the goals and (eventual) increase in the CEO's fixed remuneration was conducted by the Appointments and Remuneration Committee at its 25 February 2020 meeting, and it was agreed as follows:

Concerning the 2020 salary review, as of the date of this Report, the Appointments and Remuneration Committee has proposed a 1.5% increase in the CEO's fixed annual remuneration, effective from April 2020.

*Relative relevance of variable remuneration items with respect to fixed remuneration items (remuneration mix); criteria and goals taken into account to determine these items and to achieve an appropriate balance between fixed and variable remuneration items. In particular, please identify any actions adopted by the Company with respect to the remuneration system, aiming at reducing excessive risk exposure and adapting the system to the Company's long-term goals, values and interests, including, where appropriate, references to: any measures envisaged to ensure that the remuneration policy is aligned with the Company's long-term goals; any measures adopted in relation to staff categories whose professional activities have a material impact on the Company's risk profile; and any measures envisaged to avoid conflicts of interests, where applicable.*

Under the Remuneration policy, variable remuneration only applies to Directors performing executive duties, so that in 2020 the CEO is the only Director whose remuneration scheme includes short-term and long-term variable remuneration components.

Concerning the short-term variable remuneration component, it is defined as a percentage of fixed remuneration, which is intended to promote performance and the fulfilment of yearly goals (both at individual and Group level), taking into consideration long-term targets as well as the main risks faced by the Group. The goals associated to short-term variable remuneration are set by the Appointments and Remuneration Committee each year during the first quarter.

As regards the long-term variable remuneration component (the so-called Multi-year Remuneration), it is associated with the performance of the Company Strategic Plan as described in the Remuneration Policy, and has a three-(3)-year accrual period with a one-(1)-year grace period.

This remuneration system is intended to strike a balance between fixed and variable components, so that the fixed component represents a sufficiently large part of total remuneration, while variable items ensure that the personal performance of the CEO is sustainable and aligned with risks, ensuring that variable remuneration accrual and collection parameters are determined in a very strict manner in both cases. Variable remuneration compliance percentages and caps are described in Section III.b.II of the Policy, as detailed below (see "Amount and nature of variable components").

When determining the CEO remuneration scheme in the proposal submitted to the Board of Directors, the Appointments and Remuneration Committee analysed several

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market salary studies for similar positions in companies of a similar type and capital level, using data from internationally reputed consultancy firms and from public sources (including the CNMV's annual reports on remuneration).

The Company Risk Map is also taken into consideration when setting the goals associated to short-term and long-term variable remuneration, in order to define specific goals aimed at mitigating risks.

As concerns the actions adopted by the Company in relation to variable remuneration items in order to reduce excessive risk exposure, it must be noted that the Chairman of the Audit and Compliance Committee (which has statutory supervisory responsibilities concerning the risk management system) and the Chairman of the Appointments and Remuneration Committee are both members of the two Committees. Their cross-membership in these two Committees is helpful in assessing the risks involved in the variable remuneration system when defining the system and also in order to determine the relevant factors in terms of compliance, accrual and payment.

The remuneration packages of the CEO and the Company's management team, whose performance can have an impact on the realisation of the risks identified in the Risk Map, comprise variable components associated to short-term and/or long-term goals as defined in the Strategic Plan. The responsibilities assigned to these staff categories also include specific risk management functions, such as adopting the necessary measures to identify the main risks and reporting them to the Audit and Compliance Committee via the appropriate channels.

Additionally, and in line with good governance principles, short-term and long-term variable remuneration is paid following a reasonable period after the end of the last financial year considered for evaluation purposes, with payments being made within the 60 calendar days following the issuance of the annual accounts for that year, always provided that the accounts have been reviewed by the external auditors and upon proposal by the Appointments and Remuneration Committee.

With regard to the measures envisaged to prevent conflicts of interest, in addition to the statutory provisions applicable to Directors (among others, Article 229 of the Spanish Capital Companies Act), the Directors, the management team and all Group employees are subject to certain internal regulations specifically governing potential conflicts of interest and resolution procedures:

- Code of Ethics: Establishing that Directors and Managers must be a role model of leadership for their teams, acting in an exemplary manner when facing conflicts and complex situations.
- Internal Code of Conduct: Document to be signed by all persons who may have access to stock market information by reason of their position or functions. It must be noted here that the ICC was maintained and updated during the 2019 financial year even though this is no longer a mandatory requirement, in line with the recommendations provided by the CNMV ([https://www.meli-hotelsinternational.com/en/shareholdersAndInvestors/Documents/RIC/RIC\\_%202019\\_EN.pdf](https://www.meli-hotelsinternational.com/en/shareholdersAndInvestors/Documents/RIC/RIC_%202019_EN.pdf)).
- Human Resources Regulations: Specifically, governing obligations with respect to conflicts of interests and the use of confidential and privileged information.



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- Executive Behaviour Regulations: Also reviewed in 2019, it regulates potential conflicts of interests that may arise in the Company.

*Also state whether the company has established any accrual or vesting period for certain variable remuneration items, whether in cash, shares or other financial instruments; any deferment period for the settlement of due amounts or the delivery of already accrued and vested financial instruments; or whether a specific provision was approved reducing deferred remuneration amounts or requiring directors to return any received amount to the extent that such remuneration was based on data which turned out to be manifestly inaccurate later on.*

Annual fixed remuneration accrues at month end, so that the consideration earned by each Director is proportional to the time such Director has been in office during that year.

Regarding the CEO's variable remuneration, in line with good governance principles on remuneration, the settlement of short-term and long-term variable remuneration amounts is deferred, *i.e.* payment is made following a reasonable period after the end of the year (the last year, where applicable). In particular, upon proposal by the Appointments and Remuneration Committee, payment is effectively made within 60 calendar days following the issuance of the annual accounts for the financial year comprising the relevant goals set for the CEO, once the accounts have been reviewed by external auditors.

In accordance with the Remuneration Policy, the Company may introduce remuneration systems referenced to the Company's stock quotes or involving payment in shares or option rights over shares. However, the Company is not planning to introduce these systems into its remuneration scheme as of today.

As regards clawback provisions, *i.e.* provisions requiring a Director to return already received amounts, as stated in the first section of this Report, both the Remuneration Policy and the CEO's Services Agreement include such provisions, allowing the Company to claim the (total or partial) reimbursement of variable remuneration amounts, provided that any of the following events occur within three (3) years after payment:

- If the calculation and payment of variable remuneration was based on information manifestly incorrect or inaccurate.
- If the Director is found in breach of the Code of Ethics and/or other internal regulation.



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*Amount and nature of fixed remuneration components to accrue this year for Directors in their capacity as such.*

The fixed remuneration of Directors in their capacity as such consists of two components:

- A fixed annual salary in the amount of TWENTY-ONE THOUSAND SIX HUNDRED AND THIRTY-SIX EUROS AND FORTY-THREE CENTS (€ 21,636.43) for each Director for the current year.
- Attendance fees for the Board of Directors and Committee sessions they have actually attended in the following amounts for the current year:
  - FIVE THOUSAND FOUR HUNDRED AND NINE EUROS AND ELEVEN CENTS (€ 5,409.11) for each Board meeting.
  - THREE THOUSAND EUROS (€ 3,000) for each meeting of a Committee of which the Director is a member.
  - The Chairman of the Appointments and Remuneration Committee and the Chairman of the Audit and Compliance Committee additionally receive THREE THOUSAND EUROS (€ 3,000) for each meeting.
  - The Secretary of the Board of Directors additionally receives SIX THOUSAND EUROS (€ 6,000) for each Board meeting.

*Amount and nature of fixed remuneration components to accrue this year for Executive Directors as a consideration for their top management functions.*

In addition to the above, the CEO's remuneration package includes a fixed annual amount as a consideration for the executive duties performed under his Services Agreement. At the date of issuance of this Report (26 February 2020), the CEO receives a fixed gross annual remuneration of SEVEN HUNDRED AND SIXTY-ONE THOUSAND AND EIGHTY-EIGHT EUROS AND SIX CENTS (€ 761,088.06). This is equivalent to the amount agreed in the CEO's Services Agreement.

However, in the context of the 2020 salary review conducted at its 25 February 2020 meeting, the Appointments and Remuneration Committee proposed a 1.5% increase in the CEO's fixed annual remuneration, to take effect from April 2020.

*Amount and nature of any remuneration component in kind that will accrue during the year, including but not limited to insurance premiums paid for the benefit of the Director.*

- **Medical Insurance:** Pursuant to the Remuneration Policy and the CEO's Services Agreement, the CEO has private medical insurance covering himself and his family for a yearly premium of FIVE THOUSAND FOUR HUNDRED AND TEN EUROS AND EIGHTY CENTS (€ 5,410.80).
- **Life and Accident Insurance:** The CEO also has life and accident insurance for a yearly premium of THREE THOUSAND AND FORTY-THREE EUROS (€ 3,043) with the

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following coverage:

- € 650,000 in the event of death for any cause
- € 650,000 in the event of disability for any cause
- € 1,300,000 in the event of death by accident

*Amount and nature of variable remuneration components, distinguishing between short-term and long-term components. Financial and non-financial parameters, including social, environmental and climatic change parameters, selected to determine variable remuneration in the current year. Please explain to what extent these parameters relate to the Director's performance as well as the Company's performance and risk profile, also stating the methodology, necessary time span and techniques required to determine the degree of compliance of variable remuneration parameters at year end.*

*Please indicate the range, in monetary terms, of the different variable components according to the degree of compliance of specified goals and parameters, and whether there is any maximum monetary amount in absolute terms.*

The parameters of the CEO's short-term variable remuneration scheme for the current year were approved by the Appointments and Remuneration Committee at its 25 February 2020 meeting, as follows:

**Economic/Financial Parameters:**

- **EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization):** The Group's EBITDA is considered without capital gains and accounts for 20% of total variable remuneration.
- **ROE (Return on Equity):** This parameter accounts for 10% of total variable remuneration.
- **Debt Ratio:** This goal is based on the debt ratio (net debt on EBITDA) and accounts for 15% of total variable remuneration.
- **Profit Before Tax (PBT):** This goal is based on the amount equivalent to the Company's PBT, accounting for 10% of total variable remuneration.

**Non-Financial/Specific Parameters:**

- **Expansion:** This goal is based on the number of executed agreements and openings made (*i.e.* management, rent and franchise agreements) during the year ended, accounting for 15% of variable remuneration.
- **Action Plans defined by the Appointments and Remuneration Committee:** This goal accounts for 10% of variable remuneration.
- **First Executive Evaluation:** This goal is based on the evaluation made by the Board members at annual reviews, and accounts for 10% of total variable remuneration.

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**Non-Financial/Social and Environmental Parameters:**

- **Climate Change:** This goal is based on the reduction of CO2 emissions and accounts for 5% of variable remuneration.
- **Social:** This goal is based on the Company's ranking on the RobecoSAM 2021 index, accounting for 5% of variable remuneration.

Considering the weight assigned to each goal, the maximum percentage to be received as short-term variable remuneration would be 142%, with a minimum of 0% on the theoretical total variable remuneration amount.

In accordance with the above, the CEO's short-term variable remuneration scheme is in accord with the Remuneration Policy.

As regards long-term variable remuneration, the indicators, targets, amounts and contents of the Multi-year Plan (2020-2022) shall be defined by the Appointments and Remuneration Committee and submitted to the Board of Directors during the first half of the 2020 financial year.

Moreover, to the extent that such remuneration is referenced to stock quotes, it shall be submitted to the 2020 General Shareholders' Meeting in compliance with Article 219 of the CCA and Article 37.2 of the Company Bylaws.

*Main features of long-term saving plans. Please specify, among others, which contingencies are covered by the plan, whether it is a defined-contribution or a defined-benefit plan, any annual contributions to be made in the case of defined-contribution plans, any benefits accrued to beneficiaries in the case of defined-benefit plans, the terms and conditions governing the vesting of economic rights in favour of Directors and the compatibility of such rights with any severance payments or compensations for early termination or dismissal, or derived from the termination of the contractual relationship between the Company and the Director under the agreed terms.*

*Also indicate whether the accrual or vesting of any of the long-term saving plans is conditioned upon the achievement of certain goals or parameters relating to the Director's short-term and long-term performance.*

Pursuant to the Remuneration Policy, the Executive Director benefits from a social welfare plan organised via contributions to a group life insurance scheme excluding pension commitments, due to the commercial nature of his relationship with the Company. In any case, the accrual or vesting of social welfare plan rights is not conditioned upon the achievement of any goals or parameters related to the Director's performance.

Its basic features are as follows:

- Defined-contribution plan establishing a maximum annual contribution of 10% of

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his pensionable salary (equivalent to his fixed salary only).

- The plan benefits are illiquid, so that they may only be received upon occurrence of any of the contingencies covered by the plan (retirement, disability or death).
- Retirement, disability and death benefits shall be equivalent to the accumulated balance in the insurance policy taken out and subject to the policy features and particularities.
- The beneficiaries of the retirement plan in the event of occurrence of any of the contingencies covered by the plan shall be the CEO himself (in the event of retirement or disability) and the person designed in the beneficiary designation form, in the event of death of the insured. If no beneficiary is expressly designed, the following order of precedence shall apply by exclusion: the insured's spouse, otherwise his children, otherwise his parents, otherwise his legal heirs.
- In the event of removal from office for causes other than those covered by the retirement plan, the CEO shall have no rights on the accumulated balance.

In the current year, plan contributions are not expected to rise with respect to the previous year.

*Any kind of severance payment or compensation for early termination or dismissal, or derived from the termination of the contractual relationship pursuant to the terms agreed by the Company and the Director, whether the contract is terminated by the Company or by the Director, as well as any other specific covenants such as exclusivity, non-competition after termination, or tenure or loyalty provisions resulting in the Director's right to receive any compensation.*

The CEO is the only Director having signed a commercial agreement for the provision of services which governs the aforesaid items.

As regards compensations, this Services Agreement provides for compensation to the CEO in an amount equivalent to one year's total remuneration if any of the following events occur:

- Unilateral termination by the Executive Director: due to (material and negligent) breach by the Company of its obligations under the agreement, or by reason of a material modification in the functions, powers, or terms and conditions of the services provided by the Executive Director due to causes not attributable to the Executive Director.
- Unilateral termination by the Company: other than as a result of a material and negligent breach by the Executive Director of his obligations to perform his duties with loyalty, diligence, good faith or any other legally binding requirement applicable to the exercise of his duties.

Furthermore, the CEO's Services Agreement includes a non-competition provision in the terms described in the following section of this Report.

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*Please specify the requirements that must be met by the agreements signed by any Executive Director performing top management functions. Among others, report on the duration, compensation caps, tenure provisions, notice periods and payments in lieu of notice periods, and any other provisions relating to hiring bonuses, as well as severance payments or golden parachute clauses for early cancellation or termination of the contractual relationship between the Company and the Executive Director. Please include, among others, any covenants or provisions regarding non-competition, exclusivity, tenure or loyalty and non-competition after termination to the extent that they were not described in the section above.*

Pursuant to Article 249 of the Spanish Capital Companies Act, the CEO signed a commercial agreement for the provision of services with the Company dated 27 November 2015. This Agreement was modified on 18 June 2019 to include new terms and conditions governing the clawback provision, social welfare plans and the protection of personal data, following the approval of the new General Data Protection Regulation, as well as to update fixed and variable remuneration amounts.

This Agreement outlines his obligations and functions as Executive Director for the Company, detailing his remuneration for the performance of these functions.

The non-competition and exclusivity covenants included in the Agreement and referred to in this Section comply with the Remuneration Policy and are as follows:

Exclusivity: The CEO may not perform any other work, commercial or professional activity without the Company's consent.

Non-competition: The CEO may not directly or indirectly perform any professional activity or service involving actual, present, or potential competition with the Company or its Group.

There is also a non-competition after termination covenant applicable for one year, whereby the Company agrees to compensate the Director with one year's total remuneration based on the remuneration received by the Executive Director in his capacity as such at the time of termination. Should the Director breach his non-competition after termination covenant, he will reimburse to the Company all amounts received in relation thereto and compensate the Company in an amount equivalent to 150% of the same amount.

*Nature and estimated amount of any other supplementary remuneration accrued to Directors in the current year as a consideration for services other than those derived from their position.*

There is currently no supplementary amount or remuneration expected to accrue to Directors as a consideration for services other than those derived from their position for the current year.

*Other remuneration items, such as those derived from advances, loans or guarantees granted by the company to the Director, if any, and other allowances.*

No advances, loans, or guarantees have been granted by the Company to the members of the Board of Directors.

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*Nature and estimated amount of any other planned supplementary remuneration items not included in the sections above, whether paid by the Entity or any other Group entity, to accrue to Directors in the current year.*

No supplementary amounts or remuneration beyond those included in the sections above are currently expected to accrue.

**A.2** *Please explain any relevant change in the remuneration policy applicable during this year resulting from:*

*A new policy or policy modification already approved by the General Meeting.*

*Any relevant changes in the specific resolutions passed by the Board for the Remuneration Policy for the current year with respect to the previous year.*

*Any proposals to be submitted by the Board of Directors to the General Shareholders' Meeting together with this Annual Report for implementation in the current year.*

The Remuneration Policy applicable in the current year (2020) is the Remuneration Policy approved by the General Shareholders' Meeting on 6 June 2018, applicable to the 2019-2021 three-year period.

This Policy was modified by the General Shareholders Meeting on 18 June 2019 to incorporate the terms and conditions governing the clawback provision in the remuneration scheme of the CEO.

No modification of the Remuneration Policy is expected in the current year.

However, as explained above, the indicators, targets, amounts and contents of the CEO's long-term variable remuneration (2020-2022) shall be prepared by the Appointments and Remuneration Committee and submitted to the Board of Directors during the first half of 2020, always subject to the Remuneration Policy.

Moreover, to the extent that such remuneration is referenced to stock quotes, it shall be submitted to the 2020 General Shareholders' Meeting in compliance with Article 219 of the CCA and Article 37.2 of the Company Bylaws.

**A.3** *Please provide a direct link to the document containing the Company's applicable Remuneration Policy, which should be available on its corporate website.*

[https://www.meliahotelsinternational.com/en/shareholdersAndInvestors/Documents/Remun\\_Consejo/MHI\\_Pol%C3%ADtica\\_remuneraci%C3%B3n\\_2019-2021%20\(v2019\)\\_ENG.pdf](https://www.meliahotelsinternational.com/en/shareholdersAndInvestors/Documents/Remun_Consejo/MHI_Pol%C3%ADtica_remuneraci%C3%B3n_2019-2021%20(v2019)_ENG.pdf)

**A.4** *Based on the data provided in Section B.4, explain how the General Shareholders' Meeting's advisory vote on the previous year's Remuneration Report has been taken into account.*

On 18 June 2019, the General Shareholders' Meeting approved with 97.28% of votes in favour the 2018 Annual Report on the Remuneration of Directors, which had been previously approved by the Board of Directors on 27 February 2019. This high



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percentage (even higher than the excellent 94.89% of positive votes that were recorded at the approval of the 2017 Annual Report on the Remuneration of Directors) is indicative of the support given by shareholders to our Remuneration Policy.

	2017 General Meeting	2018 General Meeting	2019 General Meeting
ARR Approval %	69.96%	94.89%	97.28%

In preparing this Annual Remuneration Report, the recommendations provided by proxy advisors (especially Glass Lewis and ISS) in their reports on the 2019 General Shareholders' Meeting were studied and taken into account. Particular attention was given to the recommendation calling for more transparent and clear reporting on long-term variable remuneration goals.

## B. OVERVIEW OF THE REMUNERATION POLICY IMPLEMENTATION IN THE YEAR ENDED

**B.1** Please explain the process followed to implement the Remuneration Policy and to determine individual remuneration as detailed in Section C of this Report. This information should include the role played by the Remuneration Committee, the decisions made by the Board of Directors and, where appropriate, the identity and role of any external advisors engaged in the Remuneration Policy implementation process in the year ended.

As explained above, the Remuneration Policy of the Board applicable during 2019 was approved by the General Shareholders' Meeting on 6 June 2018 and was later modified by the General Shareholders' Meeting on 18 June 2019.

In line with previous years, its implementation entails an analysis and proposal process by the Appointments and Remuneration Committee to the Board of Directors for approval. In particular, in order to determine individual remuneration, special focus was given to Directors' attendance to the meetings of the Board of Directors and the Committees to which they belong, as well as the special condition of Chairman or Secretary of the Board or the Delegated Committees. These factors determined the final amount paid to each Director, within the maximum limits defined by the General Shareholders' Meeting in the approved Remuneration Policy.

The CEO's fixed remuneration was reviewed in February 2019 following the proposal of the Appointments and Remuneration Committee approved by the Board of Directors. After the relevant analyses and in line with the salary policy applicable to the rest of Group employees, the Committee proposed a 0%<sup>2</sup> increase for 2019.

In relation to the participation of external advisors, the Appointments and Remuneration Committee and the Corporate Governance and Human Resources departments received consultancy services from Cuatrecasas in the preparation of the Remuneration Policy.

**B.2** Please explain the different actions adopted by the Company in connection with the remuneration system and how they helped reduce excessive risk exposure and align it

<sup>2</sup> Erratum: The 2018 ARR wrongly stated that the 2019 increase would be 2% while it was actually 0%.



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*with the Company's long-term goals, values and interests, including references to: any measures adopted to ensure that the long-term results of the company are taken into account when defining accrued remuneration and to strike an appropriate balance between fixed and variable remuneration components; any measures adopted in relation to those staff categories whose professional activities have a material impact on the Entity's risk profile; and any measures adopted to avoid possible conflicts of interests, where applicable.*

As explained in Section A.1, and to the extent that the Remuneration Policy remained unmodified to this regard with respect to the previous year, the main actions intended to reduce risk in the remuneration systems are based on the following:

On the one hand, the allocation of responsibilities and functions between the two Delegated Committees. To this respect, as explained above, one of the functions of the Audit and Compliance Committee is to oversee the efficacy of the Company's internal control procedures, internal audit services, and risk management systems, including financial risk management; whereas the Appointments and Remuneration Committee is in charge of defining and monitoring compliance with the Remuneration Policy of the Board and the Company's management team.

Additionally, the cross-membership of Mr. Fernando D'Ornellas (Independent External Director and Coordinating Director) and Mr. Francisco Javier Campo (Independent External Director) in these two Committees helps better evaluate the risks involved in the variable remuneration system, both when defining the system and when submitting it to the Board of Directors.

It must also be noted that the incorporation of the clawback provision into the CEO's remuneration system serves as a mitigating factor, since it provides the Company with a tool to recover all or part of the variable remuneration amounts paid to the CEO in any of the following events:

- If the calculation and payment of variable remuneration was based on information manifestly incorrect or inaccurate.
- If the Director is found in breach of the Code of Ethics and/or other internal regulation.

On the other hand, the goals associated with the variable remuneration of the management team and the CEO include references to the Company's Risk Map, with a view to setting specific goals aimed at mitigating risks.

All the foregoing is without prejudice to what was explained in Section A.1 above.

**B.3** *Please explain how the remuneration that accrued during this year complies with the applicable Remuneration Policy.*

*Also report on the relationship between the remuneration received by Directors and the Entity's results and other short-term and long-term performance indicators. Explain, where applicable, any impact that variations in the Company's performance may have had on the variations in the remuneration of Directors, including accrued amounts with deferred payment, and how remuneration influences the Company's short-term*

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*and long-term performance.*

Both the remuneration of Directors in their capacity as such and the remuneration of the Executive Director comply with the Board's Remuneration Policy applicable during the 2019 financial year.

The remuneration structure applicable to Directors in their capacity as such has no variable components associated with the Company's global performance, but consists of the following:

- A fixed annual salary for each Director.
- Attendance fees for each meeting of the Board of Directors and the Committees to which each Director belongs.
- Additional attendance fees for Committee Chairmen and the Secretary of the Board of Directors.

The remuneration of Directors in their capacity as such is based on the individual performance of each Director, their respective responsibilities and the tasks assigned to them at the Committees.

Only the CEO's remuneration package comprises a variable remuneration component, including short-term and long-term items. Thus, the CEO's short-term variable remuneration for 2019 comprises the following goals associated with the Company's performance, with the following compliance percentages at year end:

- **EBITDA (*Earnings Before Interest, Taxes, Depreciation and Amortization*):** The Group's EBITDA is considered without capital gains, and accounts for 20% of total variable remuneration. In 2019, the compliance percentage was **83.78%**, resulting in a payable amount of **SEVENTY-SIX THOUSAND FIVE HUNDRED AND SIXTEEN EUROS AND SEVENTY-FIVE CENTS (€ 76,516.75)** under this heading.
- **ROE (*Return on Equity*):** This parameter accounts for 10% of total variable remuneration. In 2019, the compliance percentage was **73.09%**, resulting in a payable amount of **THIRTY-THREE THOUSAND THREE HUNDRED AND SEVENTY-SIX EUROS AND SEVENTY-SIX CENTS (€ 33,376.76)** under this heading.
- **Debt Ratio:** This goal is based on the Group's debt ratio (net debt on EBITDA) and accounts for 15% of total variable remuneration. In 2019, the compliance percentage was **0%**, resulting in a payable amount of **ZERO EUROS (€ 0.00)** under this heading.
- **Profit Before Tax (PBT):** This goal is based on the amount equivalent to the Company's PBT, accounting for 10% of total variable remuneration. In 2019, the compliance percentage was **71.21%**, resulting in a payable amount of **THIRTY-TWO THOUSAND FIVE HUNDRED AND EIGHTEEN EUROS AND TWENTY-FIVE CENTS (€ 32,518.25)** under this heading.

In total, the goals linked to the Company's performance account for 55% of the CEO's short-term variable remuneration.

Concerning his long-term variable remuneration, as explained above, the 2019 year was a grace period for accrual purposes. However, the long-term variable

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remuneration amount due for the 2016-2018 period was paid during 2019.

**B.4.** *Please report on the outcome of the advisory vote of the General Shareholders' Meeting on the Annual Remuneration Report for the previous year, detailing the number of votes cast against, if any:*

	Number	% on the total
Votes cast	175,096,009	76.834%

The percentage of votes cast was calculated based on the total share capital with voting rights.

	Number	% of votes cast
Votes against	2,795,035	1.60%
Votes in favour	170,337,884	97.28%
Abstentions	1,963,090	1.12%

**B.5** *Please explain the method used to determine the fixed remuneration components accrued during the financial year for Directors in their capacity as such, and any variation with respect to the previous year.*

The General Shareholders' Meeting held on 6 June 2018 approved a modification of the total remuneration cap for Directors in their capacity as such, setting it at ONE MILLION TWO HUNDRED THOUSAND EUROS (€ 1,200,000). This cap will continue to apply until the General Shareholders' Meeting agrees to modify it.

Fixed remuneration components accrued during the 2019 financial year were determined pursuant to the Remuneration Policy applicable in 2019, based on the items described in Section B.3 above:

- A fixed annual salary in the amount of TWENTY-ONE THOUSAND SIX HUNDRED AND THIRTY-SIX EUROS AND FORTY-THREE CENTS (€ 21,636.43) for each Director.

Since the Board is composed of ELEVEN (11) Directors,<sup>3</sup> the total amount paid under this heading was TWO HUNDRED AND THIRTY-SEVEN THOUSAND TWO HUNDRED AND SEVENTY-NINE EUROS AND SIXTY-TWO CENTS (€ 237,279.62).

- Attendance fees for each meeting of the Board of Directors and the Committees to which each Director belongs.
- FIVE THOUSAND FOUR HUNDRED AND NINE EUROS AND ELEVEN CENTS (€ 5,409.11) for each meeting of the Board of Directors.

With a total of SIX (6) physical meetings of the Board (one further meeting was held in writing, without physical attendance), and based on the attendance of each Director, the total amount paid as Board attendance fees was THREE

<sup>3</sup> The Board of Directors is composed of ELEVEN (11) Directors. However, a total of THIRTEEN (13) Directors sat on the Board during 2019.

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HUNDRED AND THIRTEEN THOUSAND SEVEN HUNDRED AND TWENTY-SEVEN EUROS AND THIRTY-EIGHT CENTS (€ 313,727.38).

- THREE THOUSAND EUROS (€ 3,000) for attending each meeting of the Board's Committees.

During 2019, a total of EIGHT (8) meetings of the Appointments and Remuneration Committee and TEN (10) meetings of the Audit and Compliance Committee were held. Based on each Director's attendance to such meetings, the total amount paid as attendance fees for the Committees was TWO HUNDRED AND FOUR THOUSAND EUROS (€ 204,000), including ONE HUNDRED AND FOURTEEN THOUSAND EUROS (€ 114,000) for Audit and Compliance Committee meetings and NINETY THOUSAND EUROS (€ 90,000) for Appointments and Remuneration Committee meetings.

The Chairman of the Appointments and Remuneration Committee and the Chairman of the Audit and Compliance Committee additionally receive THREE THOUSAND EUROS (€ 3,000) for each Committee meeting. Based on the attendance of each Chairman to each Committee meeting, the amount accrued under this heading was TWENTY-FOUR THOUSAND EUROS (€ 24,000) for the Appointments and Remuneration Committee Chairman and THIRTY THOUSAND EUROS (€ 30,000) for the Audit and Compliance Committee Chairman.

The Secretary of the Board of Directors also receives SIX THOUSAND EUROS (€ 6,000) for each Board meeting he or she attends. Having attended all Board meetings, the amount accrued under this heading is THIRTY-SIX THOUSAND EUROS (€ 36,000).

Thus, there has been no variation in the remuneration schemes for fixed components or their calculation in 2019, apart from the difference recorded in the global amounts respectively paid in 2018 (€ 830,138.33) and 2019 (€ 845,007), which was due to the varying levels of attendance of Directors to Board and Delegated Committee meetings as well as the different number of meetings held.

According to the above, the maximum available limit (€ 1,200,000) was not reached in the year ended.

***B.6 Please explain the method used to determine the salaries accrued during the financial year for Executive Directors as a consideration for their management duties, and whether they differ from the previous year.***

The salary accrued to the Company's Executive Director in the 2019 financial year is as specified in his Services Agreement and amounts to SEVEN HUNDRED AND SIXTY-ONE THOUSAND AND EIGHTY-EIGHT EUROS AND SIX CENTS (€ 761,088.06).

This amount was set by the Appointments and Remuneration Committee after analysing several market salary studies for similar positions in companies of a similar type and capital level, using data from internationally reputed consultancy firms and from public sources (including the CNMV's report on Remuneration Reports).

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Concerning variations with respect to the previous year (2018), the Appointments and Remuneration Committee finally agreed not to increase this amount at its 26 February 2019 meeting.<sup>4</sup>

***B.7 Please explain the nature and main characteristics of the variable components of the remuneration systems accrued in the year ended.***

*In particular:*

*Identify each remuneration scheme determining the different variable remuneration packages accrued to each Director during the year ended, including information on scope, approval date, implementation date, accrual and validity periods, criteria used to assess performance and their impact on the calculation of accrued variable amounts, as well as the measurement criteria that were used and the time span deemed necessary to adequately evaluate all agreed requirements and criteria.*

*For share option plans and other financial instruments, the general characteristics of each plan shall include information on vesting requirements and the terms and conditions governing the exercise of such share options or financial instruments, including price and exercise period.*

*Please identify each Director and his or her category (i.e. Executive Director, Proprietary External Director, Independent External Director, or other External Directors) who benefit from remuneration systems or plans comprising variable remuneration.*

*Where appropriate, provide information on any accrual or deferment periods implemented and/or withholding/unavailability periods for shares or other financial instruments, if any.*

*Please explain the short-term variable components of these remuneration systems.*

Only the CEO's remuneration package comprises a variable remuneration component, including short-term and long-term items.

Short-term variable remuneration items are set as a percentage of fixed remuneration. In 2019, this percentage was 60%, i.e. FOUR HUNDRED AND FIFTY-SIX THOUSAND SIX HUNDRED EUROS (€ 456,600) (hereinafter, the "Target Amount").

This Target Amount involves a theoretical minimum collection amount of 0% and a maximum of 141%, based on combined evaluation scales and the weight assigned to each goal.

According to the above, the theoretical maximum amount of short-term variable remuneration for 2019 would be SIX HUNDRED AND FORTY-THREE THOUSAND EIGHT HUNDRED AND SIX EUROS (€ 643,806), with a minimum of ZERO EUROS (€ 0).

In order to determine and calculate the final amount, different goals are assessed in relation to the Company's most critical results and the annual targets previously defined by the Appointments and Remuneration Committee. The CEO's variable remuneration component and his final degree of compliance are determined using the same criteria applied to the Company's top management.

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<sup>4</sup> Erratum: The 2018 ARR wrongly stated that the 2019 increase would be 2% while it was actually 0%.

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Both the approval of the CEO's goals for the current year and the evaluation of his degree of compliance in the year ended are annually undertaken by the Board of Directors, once the Appointments and Remuneration Committee has submitted the relevant proposal during the first quarter.

The CEO's short-term variable remuneration model is aligned with the model applied by the Company to other staff members with short-term variable remuneration packages. For the year ended, this model included indicators and annual targets associated with the following:

1. Achieving previously defined annual economic targets.
2. Mitigating the risks identified as most relevant for the Company.
3. Individual performance as First Executive.
4. Expansion Model of the Company.

Compliance with these goals is classified into two groups:

- 1) Economic goals (EBITDA and debt ratio), with a maximum compliance of 150% and a minimum compliance of 0%, and a scale linking collection percentages to degrees of compliance. These goals are evaluated based on the fulfilment of annual (budget) targets, individually defined for each goal, using the actual book values at year end as a basis to determine compliance. All these goals involve quantifiable targets and results, so that the compliance percentage results from dividing the actual book value by the budgeted value.
- 2) Non-economic goals (based on the Board's assessment of the CEO's performance and the number of Expansion Projects signed and operational during the year of accrual), with a maximum compliance of 130% and a minimum compliance of 0%, and a staggered scale comprising four compliance levels (0%, 75%, 100% and 130%).

These goals are evaluated based on a performance scale defined by the Appointments and Remuneration Committee. Each compliance level involves the achievement of certain milestones, where in order to reach the highest performance level it is necessary to have completed the previous levels.

The variable remuneration model for the Company's management, which includes Executive Directors by definition, is annually reviewed by the Appointments and Remuneration Committee, readjusting indicators and targets based on the Group's priorities.

In line with good governance principles, short-term variable remuneration is paid following a reasonable period after the end of the last financial year considered for evaluation purposes, with payments being made within the 60 calendar days following the issuance of the annual accounts, always provided that the accounts have been audited and after they have been approved by the Appointments and Remuneration Committee.

In accordance with the Remuneration Policy, the Company may introduce remuneration systems referenced to the Company's stock quotes or involving payment in shares or option rights over shares. However, the Company is not planning to introduce this system into its remuneration scheme as of today.



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At the date of this Report (2020), the Appointments and Remuneration Committee has evaluated the CEO's short-term variable remuneration goals and has approved the following levels:

**Economic-Financial Parameters:**

- **EBITDA (*Earnings Before Interest, Taxes, Depreciation and Amortization*):** The Group's EBITDA is considered without capital gains, and accounts for 20% of total variable remuneration, with a target of NINETY-ONE THOUSAND THREE HUNDRED AND THIRTY EUROS AND FIFTY-SEVEN CENTS (€ 91,330.57). In 2019, the compliance percentage was **83.78%**, resulting in a payable amount of SEVENTY-SIX THOUSAND FIVE HUNDRED AND SIXTEEN EUROS AND SEVENTY-FIVE CENTS (€ 76,516.75) under this heading.
- **ROE (*Return on Equity*):** This parameter accounts for 10% of total variable remuneration, with a target of FORTY-FIVE THOUSAND SIX HUNDRED AND SIXTY-FIVE EUROS AND TWENTY-EIGHT CENTS (€ 45,665.28). In 2019, the compliance percentage was **73.09%**, resulting in a payable amount of THIRTY-THREE THOUSAND THREE HUNDRED AND SEVENTY-SIX EUROS AND SEVENTY-SIX CENTS (€ 33,376.76) under this heading.
- **Debt Ratio:** This goal is based on the Group's debt ratio (net debt on EBITDA) and accounts for 15% of total variable remuneration, with a target of SIXTY-EIGHT THOUSAND FOUR HUNDRED AND NINETY-SEVEN EUROS AND NINETY-THREE CENTS (€ 68,497.93). In 2019, the compliance percentage was **0%**, resulting in a payable amount of **ZERO EUROS (€ 0.00)** under this heading.
- **Profit Before Tax (PBT):** This goal is based on the amount equivalent to the Company's PBT, accounting for 10% of total variable remuneration, with a target of FORTY-FIVE THOUSAND SIX HUNDRED AND SIXTY-FIVE EUROS AND TWENTY-EIGHT CENTS (€ 45,665.28). In 2019, the compliance percentage was **71.21%**, resulting in a payable amount of THIRTY-TWO THOUSAND FIVE HUNDRED AND EIGHTEEN EUROS AND TWENTY-FIVE CENTS (€ 32,518.25) under this heading.

**Non-Financial/Personal Parameters:**

- **Expansion:** This goal is based on the number of executed agreements and openings carried out (*i.e.* management, rent and franchise agreements) during the year ended, accounting for 15% of variable remuneration, with a target of SIXTY-EIGHT THOUSAND FOUR HUNDRED AND NINETY-SEVEN EUROS AND NINETY-THREE CENTS (€ 68,497.93). In 2019, the compliance percentage was **70%**, resulting in a payable amount of FORTY-SEVEN THOUSAND NINE HUNDRED AND FORTY-EIGHT EUROS AND FIFTY-FIVE CENTS (€ 47,948.55) under this heading.
- **Action Plans defined by the Appointments and Remuneration Committee:** This goal accounts for 10% of variable remuneration, with a target of FORTY-FIVE THOUSAND SIX HUNDRED AND SIXTY-FIVE EUROS AND TWENTY-EIGHT CENTS (€ 45,665.28). In 2019, the compliance percentage was **98.11%**, resulting in a payable amount of FORTY-FOUR THOUSAND EIGHT HUNDRED AND TWO EUROS AND TWENTY-ONE CENTS (€ 44,802.21) under this heading.
- **First Executive Evaluation:** This goal is based on the evaluation made by the Board



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members at annual reviews, and accounts for 10% of total variable remuneration, with a target of FORTY-FIVE THOUSAND SIX HUNDRED AND SIXTY-FIVE EUROS AND TWENTY-EIGHT CENTS (€ 45,665.28). In 2019, the compliance percentage was **80%**, resulting in a payable amount of THIRTY-SIX THOUSAND FIVE HUNDRED AND THIRTY-TWO EUROS AND TWENTY-THREE CENTS (€ 36,532.23) under this heading.

**Non-Financial/Social and Environmental Parameters:**

- **Climate Change:** This goal is based on the reduction of CO2 emissions and accounts for 5% of variable remuneration, with a target of TWENTY-TWO THOUSAND EIGHT HUNDRED AND THIRTY-TWO EUROS AND SIXTY-FOUR CENTS (€ 22,832.64). In 2019, the compliance percentage was **120.75%**, resulting in a payable amount of TWENTY-SEVEN THOUSAND FIVE HUNDRED AND SEVENTY EUROS AND FORTY-ONE CENTS (€ 27,570.41) under this heading.
- **Social:** This goal is based on the Company's ranking on the RobecoSAM 2021 index, accounting for 5% of variable remuneration, with a target of TWENTY-TWO THOUSAND EIGHT HUNDRED AND THIRTY-TWO EUROS AND SIXTY-FOUR CENTS (€ 22,832.64). In 2019, the compliance percentage was **130%**, resulting in a payable amount of TWENTY-NINE THOUSAND SIX HUNDRED AND EIGHTY-TWO EUROS AND FORTY-THREE CENTS (€ 29,682.43) under this heading.

Based on the relative weight of each goal, the CEO's total compliance rate was **72.03%**.

The total amount payable to the CEO as short-term variable remuneration accrued in 2019 was THREE HUNDRED AND TWENTY-EIGHT THOUSAND NINE HUNDRED AND FORTY-SEVEN EUROS AND FIFTY-NINE CENTS (328,947.59 €), to be paid in cash in April 2020 (single payment), the month in which the Company settles variable remuneration payments in line with the aforesaid good governance principles.

As regards the short-term variable remuneration paid to the CEO in 2019 based on the goals set for 2018 as described in Section C.1(A) of this Report, the amount was FOUR HUNDRED AND THIRTY-THREE THOUSAND FIVE HUNDRED AND SEVEN EUROS AND THIRTY-FIVE CENTS (€ 433,507.35).

*Please explain the long-term variable components of the remuneration systems*

As indicated above, the year 2019 was a grace period for long-term variable remuneration purposes. This means that only the long-term variable remuneration amount due for the 2016-2018 period was calculated and paid in 2019.

The goals involved in this remuneration, as indicated in the ARR for the previous year and according to the decisions agreed by the Appointments and Remuneration Committee at its 26 February 2019 meeting, were grouped into the following four blocks:

- **Stock quote Evolution [20%]:** Evolution of the Company stock quote vs. average growth of the IBEX 35 and the Dow Jones Europe Travel & Leisure indexes. Compliance was rated at 80.35% for this goal.

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- **Financial Solvency [35%]:** This comprises the goals involving EBITDA without capital gains, debt ratio and revenue per available room. Compliance was rated at 103.33%.
- **Business Targets [30%]:** This comprises business-specific goals linked to quantitative and qualitative indicators, such as new hotels opened, executed agreements, recognition and loyalty. Compliance was rated at 94.5%.
- **Intangible Goals [15%]:** Based on the Leadership Index and the Governance Model, with a 103.5% compliance.

In line with good governance principles, multi-year variable remuneration was paid following a reasonable period after the end of the last financial year of the three-year period, *i.e.* within the 60 calendar days following the issuance of the 2018 annual accounts, once the accounts had been audited and following the Board's approval upon proposal by the Appointments and Remuneration Committee.

Based on the relative weight of each goal, the CEO's total compliance rate was 96.24%, for a total received amount under this heading (long-term variable remuneration) of ONE MILLION TWO HUNDRED AND FIFTY-ONE THOUSAND ONE HUNDRED AND SEVENTY-SEVEN EUROS AND SEVENTY-THREE CENTS (€ 1,251,177.73), paid in cash in April 2019 in a single payment.

***B.8. Please indicate whether vested and deferred variable remuneration components were reduced or whether vested and paid variable remuneration components were clawed back where underlying data were later shown to be manifestly inaccurate. Indicate any amounts that were reduced or clawed back pursuant to malus or clawback provisions, why they were enforced and the relevant financial year.***

According to what was explained above, and in line with the Recommendations of the Good Governance Code of Listed Companies, the CEO's Services Agreement was modified in 2019 to incorporate a reimbursement or reduction mechanism (clawback) with respect to variable remuneration. This also implied a modification of the Remuneration Policy, which was approved by the General Shareholders' Meeting on 18 June 2019.

Although the modification of the CEO's Services Agreement had retroactive effect back to 1 January 2019, the Company did not reduce or claim the reimbursement of any amounts with respect to the CEO's variable remuneration during the 2019 financial year. This is without prejudice to the functions assigned to the Appointments and Remuneration Committee in relation to this matter, and taking into account that the valid period to claim a reduction or reimbursement of any amount under the clawback provision is THREE (3) years from payment or settlement.

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**B.9** Please explain the main characteristics of the long-term saving plans whose amount or equivalent annual cost is shown on the tables of Section C, including retirement and any other survivor benefit, which are totally or partly financed by the Company, whether through internal or external contributions, and indicate the type of plan, whether it is a defined-contribution or defined-benefit plan, its contingency coverage, the conditions for the vesting of economic rights in Directors, and whether they are compatible with any compensation for early termination or end of the contractual relationship between the Company and the Director.

A Social Welfare Plan was incorporated into the CEO's remuneration scheme in accordance with the applicable Remuneration Policy. The contributions to the Plan were initiated during the 2019 financial year, their main characteristics being the following:

- Defined-contribution plan establishing a maximum annual contribution of 10% of his pensionable salary (equivalent to his fixed salary only).
- The plan benefits are illiquid, so that they may only be received upon occurrence of any of the contingencies covered by the Plan (retirement, disability or death).
- Retirement, disability and death benefits shall be equivalent to the accumulated balance in the insurance policy taken out and subject to the policy features and particularities.
- The beneficiaries of the Retirement Plan in the event of occurrence of any of the contingencies covered by the Plan shall be the CEO himself (in the event of retirement or disability) and the person designed in the beneficiary designation form, in the event of death of the insured. If no beneficiary is expressly designed, the following order of precedence shall apply by exclusion: the insured's spouse, otherwise his children, otherwise his parents, and otherwise his legal heirs.
- In the event of removal from office for causes other than those covered by the Retirement Plan, the CEO shall have no rights on the accumulated balance.

During 2019, contributions to this Plan amounted to SEVENTY-SIX THOUSAND ONE HUNDRED AND EIGHT EUROS (€ 76,108).

**B.10** Please explain, where applicable, any compensations or severance payments derived from early dismissal, whether at the initiative of the Company or the Director, or from the termination of the agreement pursuant to the terms thereof which have accrued and/or have been received by Directors in the year ended.

N/A

**B.11** Please indicate whether any relevant modification was made in the agreements signed with persons performing top management duties as Executive Directors and explain them where appropriate. Also explain the main terms and conditions of the new agreements signed with Executive Directors during the financial year, unless they were already explained in Section A.1.

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The CEO's Services Agreement was modified during the 2019 financial year (specifically on 18 June 2019) in order to incorporate a clawback provision, as indicated above.

The following aspects were modified in addition to the incorporation of the clawback provision:

- (i) Firstly, the personal data protection provision was modified in order to adapt it to the new General Data Protection Regulation (GDPR).
- (ii) The terms governing social welfare plans were also included, following the approval of the new Remuneration Policy.
- (iii) The fixed remuneration amounts were updated.

***B.12 Please explain any supplementary remuneration amount accrued to Directors as a consideration for services other than those inherent to their position.***

N/A

***B.13 Please explain any remuneration in the form of advances, loans or guarantees, indicating their interest rates, key features and any amounts eventually repaid, as well as any liabilities incurred for Directors by way of guarantee.***

No advances, loans, or guarantees were granted by the Company to the members of the Board of Directors.

***B.14 Please detail any remuneration in kind accrued to Directors during the financial year, providing a brief description of each salary component.***

During the 2019 financial year, and in accordance with the remuneration scheme described throughout this Report, the only Director receiving remuneration in kind was the CEO:

**Private Medical Insurance:** The CEO has private medical insurance covering himself and his family for an annual premium of FIVE THOUSAND AND TEN EUROS AND FIFTY-FOUR CENTS (€ 5,010.54).

**Life and Accident Insurance:** The CEO also has life and accident insurance for a yearly premium of TWO THOUSAND EIGHT HUNDRED AND EIGHTY-ONE EUROS AND THIRTY-SIX CENTS (€ 2,881.36) with the following coverage:

- € 650,000 in the event of death for any cause
- € 650,000 in the event of disability for any cause
- € 1,300,000 in the event of death by accident

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**B.15** Please explain the remuneration accrued to the Director derived from payments made by the listed company to a third entity to which the Director provides services, when such payments are intended to remunerate the Directors' services for the company.

N/A

**B.16** Please explain any remuneration items other than those detailed above, whatever their nature or the Group company paying them, especially when this may be considered a related-party transaction or where its issuance may distort the true image of the total remuneration accrued to the director.

N/A

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**C. DETAILED INDIVIDUAL REMUNERATION FOR EACH DIRECTOR**

**C.1** Please fill in the following tables with respect to the individual remuneration of each Director (including any remuneration for the performance of executive duties, where appropriate) accrued during the year.

a) Remuneration paid by the Company referred to in this Report

i. Accrued remuneration in cash (thousands of €)

Name	Fixed Remuneration	Attendance fees	Remuneration as member of Board Committees	Salary	Short-term variable remuneration	Long-term variable remuneration	Compensatio	Other items	Total for the year 2019	Total for the year 2018
Ms CARINA SZPILKA LÁZARO	22	62							84	84
Mr FERNANDO D ORNELLAS SILVA	22	110							132	115
Mr JUAN ARENA DE LA MORA	22	46							68	79
Mr ALFREDO PASTOR BODMER	11	31							42	81
Mr GABRIEL ESCARRER JULIÀ	22	27							49	49
Mr SEBASTIÁN ESCARRER JAUMÍ	22	27							49	54
Mr GABRIEL ESCARRER JAUMÍ	22	32		761	434	1251			2,500	1,296
Mr FRANCISCO JAVIER CAMPO GARCÍA	22	90							112	90
Mr LUIS MARÍA DÍAZ DE BUSTAMANTE	22	92							114	108
HOTELES MALLORQUINES CONSOLIDADOS S.L	22	56							78	72
Mr JUAN VIVES CERDÁ	10								10	45
HOTELES MALLORQUINES ASOCIADOS S.L	11	16							27	
Ms MARIA CRISTINA HENRIQUEZ DE LUNA	11	16							27	

## 2019 ANNUAL REPORT ON THE REMUNERATION OF DIRECTORS

*ii. Table of changes in remuneration systems based in shares and share gross profit or vested financial instruments.*

N/A

*iii. Long-term saving plans*

Name	Contribution for the year by the Company (thousands of €)				Amount of accumulated funds (in thousands of €)			
	Saving plans with vested economic rights		Saving plans without vested economic rights		Saving plans with vested economic rights		Saving plans without vested economic rights	
	2019	2018	2019	2018	2019	2018	2019	2018
Mr GABRIEL ESCARRER JAUME			76	0			76	0

*iv. Other items*

Name	Item	Remuneration amount
Mr GABRIEL ESCARRER JAUME	Life insurance	3

*b) Remuneration paid to Company Directors for their membership in boards of other Group companies:**i. Accrued remuneration in cash (thousands of €)*

Name	Fixed remuneration	Attendance fees	Remuneration as member of Board Committees	Salary	Short-term variable remuneration	Compensation	Other items	Total for the year 2019	Total for the year 2018
Mr GABRIEL ESCARRER JAUME		107						107	114

*ii. Table of changes in remuneration systems based in shares and share gross profit or vested financial instruments.*

N/A



## 2019 ANNUAL REPORT ON THE REMUNERATION OF DIRECTORS

*iii. Long-term saving plans*

N/A

*iv. Other items*

N/A

*c) Remuneration summary (in thousands of €):**The summary must include all remuneration amounts accrued to each Director as shown in this Report, in thousands of euros.*

Name	Accrued remuneration at the Company					Accrued remuneration at other Group companies				
	Total remuneration in cash	Gross profit from shares or vested financial instruments	Remuneration via saving plans	Remuneration via other items	Total for 2019 at Company level	Total remuneration in cash	Gross profit from shares or vested financial instruments	Remuneration via saving plans	Remuneration via other items	Total for 2019 at Group level
Ms CARINA SZPILKA LÁZARO	84				84					
Mr FERNANDO D ORNELLAS SILVA	132				132					
Mr JUAN ARENA DE LA MORA	68				68					
Mr ALFREDO PASTOR BODMER	42				42					
Mr GABRIEL ESCARRER JULIÁ	49				49					
Mr SEBASTIÁN ESCARRER JAUME	49				49					
Mr GABRIEL ESCARRER JAUME	2,500			3	2,503	107				107
Mr FRANCISCO JAVIER CAMPO GARCIA	112				112					
Mr LUIS MARÍA DÍAZ DE BUSTAMANTE	114				114					
HOTELES MALLORQUINES CONSOLIDADOS S.L	78				78					
Mr JUAN VIVES CERDÁ	10				10					
HOTELES MALLORQUINES ASOCIADOS S.L	27				27					
Ms MARIA CRISTINA HENRIQUEZ DE LUNA	27				27					
Total	3,292			3	3,295	107				107

## D. OTHER RELEVANT INFORMATION

*Please give a brief explanation of any relevant aspect related to the remuneration of Directors which could not be included in the previous sections of this Report, but which is necessary in order to provide a comprehensive and reasonable view of the remuneration structure and practices implemented by the Company with respect to Directors.*

### Note to Section C.1 a) i (“Other Items”):

The amount of the CEO's insurance life premium is reported in Sections C.1 a) iv and C.1. c) as “other items”.

### General note in relation to the 2018 Annual Remuneration Report (“2018 ARR”):

For transparency purposes, it is appropriate to include here the following clarifications or remarks with respect to certain data published in the 2018 ARR:

- As already indicated in a footnote, the Remuneration Policy applies to the 2019–2021 three-year period, while in the 2018 ARR reference was made to the “2019–2020 three-year period” (2018 ARR, pages 2 and 3).
- Concerning the maximum amount of the CEO's long-term variable remuneration, we can confirm that the amount was correct, while the percentage provided to relate this figure to the fixed remuneration amount was not updated. As agreed by the Appointments and Remuneration Committee, the variable remuneration target amount is 60% of the annual fixed salary for each year of the remuneration plan, *i.e.* a total of ONE MILLION THREE HUNDRED THOUSAND EUROS (€ 1,300,000) as target amount, instead of the equivalent to the fixed salary for one year (2018 ARR, page 22).
- The 2018 ARR mentioned a proposal to increase the CEO's fixed remuneration by 2% in 2019. However, it was later agreed and proposed by the Appointments and Remuneration Committee to set such increase at 0%, which was the percentage finally applied, *i.e.* the CEO's fixed remuneration was not increased in 2019. (2018 ARR, pages 4 and 8).

**This Annual Remuneration Report was approved by the Company's Board of Directors on 26 February 2020.**

Please indicate whether any Director voted against or abstained in relation to the approval of this Report: **NO**.